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CORRESPONDENCE.

THE ECONOMIC MOVEMENT IN GERMANY.

[The date at which this letter was received unfortunately made it impossible to submit the translation to Professor Nasse for his revision, in season for publication in the present number.]

BONN, at the close of May, 1887.

IN recent years, economic questions have been discussed in Germany more than at any other time. Until within fifteen years, controversy turned on the powers and influence of the representatives of the people, the position of the states in the Empire, the division of the field of Church and State,—questions which, as compared to those concerning social and economic policy, have since gone into the background. Political parties have become economic parties, and the vigorous discussion in public life has exercised a stimulating influence on scientific research. Important differences of principle have appeared in the course of this movement; and controversy has arisen, not only on the merits of particular measures, but as to the scope of economic policy as well as of economic research. It will serve the best purpose, I believe, if I direct my remarks to these questions of principle; and I will therefore endeavor to say something first on the disputes in the field of practical politics, and then on the differences among investigators and scholars.

In most civilized countries, a reaction has set in, in recent times, against the industrial individualism which had for centuries advanced with powerful strides; but nowhere has the reaction been so strong as in Germany. Many causes have contributed to this. The German states, and especially the largest one among them, possess a wise and well-ordered administrative system, and a trained and trustworthy body of civil servants. Until 1866, few in Germany estimated this advantage at its true worth. On the contrary, the general

dissatisfaction with the sad state of Germany led to a general distrust of the governments and their agents (*Organe*). There was astonishment at their achievements and their success in 1866, 1870, and 1871. Public opinion changed, and all the more strongly as the injustice and the mistake of former years were perceived, and the great boon was appreciated which Germany possessed, in an impartial, just, and intelligent administration of her public affairs. While the deficiencies and the close guardianship of a short-sighted bureaucracy had been complained of in former years, a belief now arose that every economic and social evil could be cured by the state and its agents. Add to this the influence of the great statesman who stands at the head of Germany, and is indefatigably active in extending the influence and power of the state in a country which has been divided and split up time out of mind. Lastly, it was unfortunate for the adherents of a liberal economic policy that, shortly after the passage of legislation such as they advocated in the years 1865-73, a great crisis and an industrial depression set in, which were widely ascribed in Germany to those new measures which had promoted freedom of exchange in domestic and international trade.

The change in public opinion in Germany as to the functions of the state shows itself in the most diverse fields. It is most noticeable in the prevalent opinions on customs-tariff policy. The government of the leading state had always been, from 1807 to 1877, favorable to a system of moderate free trade, and had opposed the protective tendencies of the southern states. In this policy, the statesmen of Prussia had been supported, not only by current economic theory, but by the interests of by far the most important and influential branch of industry in that country. The agriculturists of Northern Germany had in England a near market for a surplus of production over domestic consumption, which was until recent times not inconsiderable; and they found, moreover, in England the best and cheapest source of supply for manufactured articles. Their interests led them to oppose with all possible strength any artificial disturbance of this exchange. The situation is now altered. The competition of America, Australia, Russia, and India has deprived German

agricultural products of their market in England; while Germany needs of those products a larger amount for consumption than she herself produces. The agricultural producers have changed from eager free traders into protectionists; and in 1879 a compromise was struck, under the leadership of the imperial government, between the large landed proprietors and the representatives of the cotton and iron industries, by which they gave each other aid in their protectionist efforts. The demands of the agricultural producers were moderate in 1879, but since then the movement for protection against foreign competition has grown in strength and has won wide support. The continued fall in the prices of agricultural products has brought about, on the one hand, a state of depression among land-owners, which constitutes a serious danger for the country at large, and on the other hand has caused many consumers to believe that protective duties do not raise prices. Moreover, the countries from which Germany imports most agricultural products—Russia and the United States—impose heavy import duties on German manufactures; and public opinion inclines to retaliation. Under such conditions, the representatives of the landed interest demand higher and higher duties, in order to check the import of foreign agricultural products; and it is quite within the bounds of possibility that, in the early future, they may carry their demands through even more than in the past. For the present, however, the great statesman at the head of affairs maintains an attitude of non-compliance with their demands. The objections on the score of the cost of subsistence to the poor and the cost of production in exporting industries are obvious. It is only in the latter that our rapidly growing population can find employment and wages; and, in order to yield these, the exporting industries need cheaper production, which shall enable them, by lower prices, to find wider markets abroad. Considerations of this kind may in time destroy the alliance between the agricultural and industrial protectionists of Germany, as they did in their time in England. The manufacturers call with increasing frequency for commercial treaties with foreign countries, which shall open the way for German exports by mutual reductions of duty;

while the agriculturists oppose such demands, which must lead to a reduction of duties on their products.

Much less dispute exists on the achievements of the new industrial policy in its endeavors to protect the laborer and his family from want in case of sickness or accident. The two acts passed for this purpose, the sick and accident insurance acts, are now completely in force; and it is fair to say that their operation has reconciled with them many who were at the outset opposed to their fundamental idea, and especially to their compulsory features. Experience will show more and more rapidly how to obviate slight defects such as have come to light in their execution. The gravest doubts arise from the fact that the bodies insuring against accident do not accumulate a fund which will enable them in the future to keep their dues at the present level. They accumulate but a moderate reserve-fund, so that the contributions must increase continuously for a number of years. The strongest reason given for this course is that at present it would be dangerous to impose great burdens on our industries, and that it is wise to make the contributions small for the first few years. But who will guarantee that German industries shall yield so much more in the future than they do now? These, however, are, after all, objections of no decisive bearing. On the whole, there is an unmistakable feeling of satisfaction—a feeling which constantly extends to wider circles—that the greater number of laborers with their families have been successfully secured against bitter need and misery in case of sickness or other misfortune. The next task for the social legislation so begun will be the extension of insurance regulated by the state to incapacity arising from old age (*Invalidenversicherung*). The task presents very great difficulties, but it may be hoped that they will be gradually overcome for larger and larger parts of the working population. In addition to the imperial legislation on workmen's insurance, efforts will be made to remove evils of less importance. Measures for counteracting usury in the agricultural districts, for abolishing unsanitary factory methods and unhealthy city dwellings, are now in the foreground in public discussion.

While the legislative efforts just mentioned are peculiar to

Germany, the contest between monometallism and bimetallism has essentially the same features as in other countries. It was natural that the success of government action in other fields should bring many to adhere to the policy, which desired to fix by public measures the relative values of the two precious metals. It is fair to say that by far the majority of the younger economists are advocates of international bimetallism. Among the people at large, moreover, the agricultural situation presents a favorable field for the bimetallist agitation, as well as for the protectionist. Nevertheless, it has, in recent years, decidedly lost ground. The Prussian minister of finance, without going further in the matter, has pointed out the uncertainty of any international coinage agreement; above all, the impossibility of insuring its punctual execution by all the contracting parties. He has rejected, without further ado, the idea of putting the German coinage system on so precarious a foundation. It is not likely that he would have made a declaration of this kind on a matter of international concern without consultation with Prince Bismarck. The declaration is therefore of great significance. It is well known that Prince Bismarck shares the fears of the bimetallists that the production of gold will not suffice to meet the demands for coinage purposes of all the states that wish to adopt the gold standard. The analogy, so often used, of the blanket which is too short, comes from him. His social and political position leads the chancellor to sympathize with the classes who suffer from the low prices. That he should, nevertheless, reject international bimetallism is the result, not of opposition or indifference to its aim, but of doubts as to its practicability. The man with the best knowledge of international relations has no faith that an international treaty can have that degree of permanency, which would be necessary to make it the foundation of a country's coinage system. That this is the position of the imperial government has been made more clear, by the sale to the Egyptian government of a quantity of silver, consisting in part of old coins previously melted down, and in part of thaler pieces, which had remained in circulation and were withdrawn for this purpose. The melting of the thalers and the sale of the silver already

melted had been suspended in 1879, in the hope of a rise in the price of silver. The resumption of the sales last year, at still lower prices, shows that the German government has given up the hope of an international agreement that might raise the price of silver. The cause of bimetallism in Germany has therein suffered a great defeat.

If we turn now from these questions of economic policy to scientific investigation, we may best divide German economists according to their opinions as to the province of political economy and its methods of scientific research.

Investigators are not wanting in Germany who adhere in matters of method to that economic school which has its most distinguished representative in Ricardo. They endeavor to isolate in thought economic phenomena, to disregard as much as possible all motives other than economic which actuate men in their industrial action, and thereby to find rules for industrial action. The investigation of these economic laws is to be sharply separated from the study of the actual development of economic affairs, from economic history, and from schemes for the best governmental regulation of the economy of society. The representatives of this abstract, deductive tendency are to be found chiefly in Austria, where their leader is the acute professor of political economy in the University at Vienna, Dr. Carl Menger. Böhm-Bawerk, Emil Sax, and others, join him. An excellent justification of this method was published, a few years ago, by the present professor of political economy at the University of Dorpat, H. Dietzel, in Conrad's *Jahrbücher für National-Oekonomie* (vol. ix., new series).

If it were our business to review in this connection the various publications, we might enumerate a series of very acute writings of this tendency brought out in recent years. Little, however, as we might wish to deny the propriety of this method in principle,* it must yet be admitted, as its opponents assert, that the results achieved by it, notwithstanding the abilities of those who maintain it, are insignificant. The most important work of Böhm-Bawerk, on theories of inter-

*In the original, "Aber so wenig wir die Berechtigung dieser Methode principiell läugnen möchten."

est, contains an exhaustive criticism of previous doctrines, yet fails to arrive at any independent conclusion; and I fear that, when we get this conclusion, it will prove to differ little from Hermann's and Menger's theories of the yield of capital (*Nutzungstheorien*), which the author has rejected. The comprehensive work of E. Sax, just published, *Grundlegung der Theoretischen Staatswirthschaft*, treats public finance as a purely economic matter, and considers the payment of taxes a mere process of economic valuation [of the services of the state] (*wirthschaftlichen Werthungsprocess*). But, although it is often possible, and indeed, for purposes of scientific deduction, often necessary, to disregard accidental, disturbing influences in considering private economy, such a proceeding cannot hold good in treating public finance, and, above all, the distribution of taxation. For here the non-economic factors are not accidental, but essential.

The lack of fruit from the deductive method in more recent times is, to my mind, the chief cause of that opposite tendency, which endeavors to resolve political economy into economic history, and for the present confines itself to specific historic investigations which are to form the foundations of a coming philosophy of economic history. The leading representative of this tendency is G. Schmoller, of Berlin. But, besides him, a large number of young men in Germany have devoted themselves to studies in economic history, and have produced many thorough pieces of work in this field, so fertile and as yet so little cultivated. I mention but one comprehensive work, the result of extraordinary diligence, which has essentially added to our knowledge of the economic conditions of Germany in the Middle Ages, Lamprecht's *Deutsches Wirtschaftsleben im Mittelalter*, in four large volumes. To these historical works, we may add a large number of careful investigations of existing economic conditions. The *Verein für Socialpolitik* has issued in recent years numerous excellent publications on the agricultural situation, and on tenements and dwellings in the large cities. Similarly, there are instructive and careful descriptions of local economic conditions in the various series edited by Professors Schmoller, Conrad, Brentano, and Knapp.

But the great majority of German economists would not limit political economy to the conclusions which can be reached deductively, nor to the description of the economic conditions of the past or present, nor to comparative economic history. They believe that, side by side with the deductive method, the experiences of actual life, as ascertained by attentive observation and thorough study of the economic phenomena of the past and present, are the prime sources for economic science. They are convinced that things cannot be understood unless it be known how they have developed. But history and statistics alone by no means can bring us an understanding of the economic life of our time. Its manifestations are so much more complicated and varied than those of former times, that we can find our way among them only by isolating in thought particular phenomena and following them out. Lastly, these men see no ground, either in the variety of our actual knowledge—a variety that can never quite disappear—or in the close connection of economic and other phenomena, for giving up as hopeless the task of constructing an economic theory. That the greater number of German economists follow this "eclectic" or "empiric" tendency is shown in the largest and most important work which German political economy has produced in recent years,—the *Handbuch der Politischen Oekonomie*, edited by G. Schönberg, of which the second much enlarged and improved edition appeared last year. The book is well known, and need not be further described here. Next to it, the most important publications of larger scope which have appeared of late are doubtless the three treatises on finance by L. Stein, W. Roscher, and Ad. Wagner. These authors, however they differ in other respects in their political and scientific views, all take in the matter of method that attitude of compromise which has just been described. But the great interest in matters of public finance which is signified by the simultaneous appearance of these three large and comprehensive works on the subject, is characteristic in another way of German political economy. It shows the tendency in Germany to treat of public economic (*staatswirthschaftlichen*) operations in contrast to the tendency of the older English and French writers to treat only of the

operations of individuals (*privatwirtschaftlichen*). Economic life is preferably considered in its connection with the state; and the old individualistic tendency, which was hostile to government, may be considered a thing of the past.

The change in public opinion already alluded to, on the relations of the individual and of society, of private and of public economy, appears even more strongly in science than in actual life. Still, very different degrees are distinctly to be seen in this tendency toward public economy or state socialism, and might be pointed out particularly in the three treatises on finance which have been mentioned. Ad. Wagner goes farthest in introducing "communistic" aims into the management of public finance. To his mind, taxes are means not only for supplying public wants, but for correcting inequalities in the distribution of wealth. The danger which comes from setting up such a principle in a democratic society, or a society tending to democracy, like our own, is above all strongly insisted on by Stein. This has led Wagner to begin the publication in the *Zeitschrift für die Gesammte Staatswissenschaft* of several articles, in which he endeavors to defend his "socialistic" conception of public finance. It is his opinion that we are in a stage of transition from the period of the citizen's state (*staats-bürgerlichen Periode*) to the socialistic period, and that this inevitable and desirable development is to make its way in public finance and especially in taxation.

We must refrain from a more detailed description of the recent publications in German economic literature. For that, the scope of this letter does not suffice. The task for such a report as this, it has seemed to me, is simply to call attention to those controversies and intellectual movements which are most deserving of note in the field of German economics, both in literature and in polity, and which I may suppose to be most likely to arouse interest abroad.

ERWIN NASSE.